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29 July 1955

TO : AD/RR

THRU : Chief/E

FROM : Chief, D/S

SUBJECT: Transmittal of Project No. 42.759, "Recent Developments in Soviet Trading Delinquencies."

1. Attached ^{are} ~~is~~ the original and three copies of the subject paper.

2. This paper was prepared in response to a DD/P request for examples of (1) difficulties of trading with the Soviet Bloc and (2) Communist use of trade channels for propaganda purposes.

3. The responsible analyst assembled and developed the available pertinent intelligence material in a competent manner. The methodology is relatively simple, since the paper essentially represents a summary of information pertinent to the subject.

4. This project is a competent report within the terms of reference provided by the DD/P. It should be remembered, however, that this report only lists delinquencies and thus should not be used to judge the capabilities of the Soviet trade effort.

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9 June 1955

MEMORANDUM FOR: Assistant Director for Research and Reports

SUBJECT: Soviet Trading Delinquencies

REFERENCE: [REDACTED] 25X1A

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1. In addition to the Soviet Economic Penetration requirement [REDACTED] this office would appreciate as much of the following information as is available in connection with the Soviet Trading delinquencies:

*What was this?
Jed*

a. Evidence of lack of good faith on part of the Soviets (including instances of non-fulfillment or renegeing of contracts).

b. Variations from established business practices and ethics.

c. Difficulties in settling credit balances, analysis or collation of material on strong debtor position established by USSR and the Bloc.

d. Difficulties encountered by private firms in dealing with the nationalized industries of the USSR and Bloc; and

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e. While not directly related to trade delinquencies, any use made by the USSR and Bloc of trade channels for propaganda purposes is also desired.

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2. Based on a conversation with [REDACTED], it was understood that much of the above requested information is already available. In view of this, it is requested that the target date for this requirement be 1 August 1955.

How does it do?

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CENTRAL INTELLIGENCE AGENCY

Office of the Chief, Economic Research

Office of Research and Reports

Project Action Memorandum

Project No. 42,759

DATE: 24 June 1955

RE: Recent Developments In Soviet Trading Delinquencies

REF: [REDACTED]

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STATEMENT OF PROBLEM AND TERMS OF REFERENCE:

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1. Per Case [REDACTED]
2. To be submitted in transcript form (original and three) with full documentation.

RESPONSIBILITY:

Man-Hours

Due Date

Concurrence
(Initials)

Action Division:

D/S
S/TF

100

27 July 55

[Signature]

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Staff:

St/FR

1 Aug 55

J.C.M.

Project Monitor:

2803

Project will not delay completion of currently scheduled projects.
Classification of this project will be no higher than SECRET, and
probably unclassified.

APPROVED E.La Ch/E

S-E-C-R-E-T

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27 July 1965

TO : Chief, E

THRU : Chief, D/S
Chief, S/TF

25X1A

FROM : 

SUBJECT: Certification of Classification of Project 42.759

This is to certify that no information of higher security classification than SECRET, NOFORN was used in the preparation of this project.

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Recent Developments in Soviet Trading Balances

Summary and Conclusions

Free World countries are continuing to experience difficulties in their trading relations with the Soviets. Western businessmen have repeatedly complained about the high prices and poor quality of Soviet merchandise. Free World countries have expressed concern over the wide fluctuations in trade levels proposed by the Soviets from year to year. Complaints have been registered about chronic trade deficits with the Soviet Union, caused largely by Soviet inability to furnish exports desired by these countries. Free World press commentaries have pointed out the dangers of trading with the Soviets when such trade is so dependent on sudden changes in Soviet policy, the uncertainties of trading with the Soviets and the special risks involved. Finally, Afghanistan and Finland have become excessively dependent on trade relations with the Soviet Union.

However, these difficulties have not led the Free World countries to lose interest in the Soviet market. They have been sufficiently satisfied with this trade to continue and even expand trade relations with the USSR. Even in the extreme case of Denmark, where negotiations for an agreement were broken off because of Denmark's refusal to supply two tankers, efforts are being currently made to build up trade with the USSR without a regular trade agreement.

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Difficulties of Trading with the Soviets

Greece 1/

In March 1955 the Greek press gave extensive coverage to the fact that the USSR's chronic trade imbalance with Greece had continued. As of March 1955 a credit balance of \$1,271,659 existed in favor of Greece. In addition, Greek traders are still complaining about the high prices and inferior quality of Soviet merchandise.

Considerable press attention was also given to alleged Soviet renegeing on tobacco contracts. Articles in the press underlined the danger of trading with the Soviets when such trade was obviously so dependent on sudden changes in Soviet policy. Although press coverage on the cancellation of the contracts was exaggerated, the publicity and ensuing protests from the tobacco merchants probably played a part in Moscow's decision to buy the rejected tobacco.

Denmark

Discussions are continuing concerning the possible resumption of trade negotiations with Russia. Negotiations were broken off in July 1954 because of Denmark's refusal to supply two tankers embargoed under COCOM regulations. It appears, however, that the Soviet Union's attitude remains unchanged from last year and the delivery of two tankers still remains as a condition for the signature of the agreement. Danish trade organizations are not pressing the matter because they fear new failure

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to reach an agreement would jeopardize current efforts to build up trade without a regular trade agreement. ^{2/} Official trade statistics for the first quarter 1955 continue to reflect the decrease in Danish trade with the USSR which followed after the expiration of the agreement. Danish exports to the USSR in the first quarter of 1955 amounted to only \$420,000 against \$9,770,000 for the same period in 1954. Danish imports in the first quarter 1955 amounted to \$2,787,000 against \$6,033,000 for the comparable 1954 period when the trade agreement was in effect. ^{3/}

Netherlands ^{4/}

The Netherlands is currently faced with a situation similar to Denmark's. During the discussions for 1955 trade in May 1955 the Russians made frequent references to the whaling factory and catchers listed in the 1948 long-term trade agreement. The Soviets emphasized that this should currently interest Dutch shipyards but injected the idea that if the Netherlands was not interested in the business the USSR could purchase the factory and catchers in Japan "with no strings attached." As in the case of Denmark, continued Dutch refusal to license the whaler may be used by the Soviets as an excuse to terminate the agreement. By linking this matter to Japan, the Soviets are once again using the tactic of playing off one Western nation against another. At the same time, the Soviets are playing on the known fears of Dutch industrialists concerning Japanese competition. This same technique was used by the Soviets in warning the British about Japanese and West German competition.

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Moreover, the proposed list of Soviet imports unexpectedly made no provision for Dutch exports of cheese, butter, meat and textiles which had been included in the previous agreement. In the discussions in 1953-54 the Dutch made it clear before consenting to their inclusion in the agreement that there was little disposition to sell these goods on a one-time basis. The Dutch regard the absence of these commodities as an abrogation of the 1953-54 understanding that the USSR would fix annual quotas for these commodities in future agreements. In general, the Soviet response left little room for optimism with respect to a renewal of the 1954 agreement.

Afghanistan

The potential problems and the risks involved in the reliance upon the USSR as a major supplier or purchaser for particular commodities can be illustrated in Afghanistan-Soviet trade relations. The total volume of Afghan-Soviet trade has been steadily increasing over the past several years. This increase, from the Afghan view point, can be explained by the favorable terms granted by the Soviets in the agreement. For instance, [REDACTED] the price of Russian gasoline at 5.88 afghanis per imperial gallon against 11.20 afghanis per gallon for British-American gasoline. The gap in prices is so great that it can be accounted for only by assuming the Soviet price to be a political price set to keep

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Afghanistan dependent upon the USSR as a major supplier of fuel.

Afghanistan, being almost entirely dependent on motor transportation, is in a specially precarious position with regard to fuel supplies. The USSR could cause serious problems by withdrawing its fuel supplies to Afghanistan. ^{5/}

The Soviets have concluded arrangements to purchase 5,000 mt Afghan cotton at prices reportedly \$3 per ton above world prices. Japanese and Italian buyers refused to pay the premium prices demanded. ^{6/} Moreover,

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[REDACTED] in 1954 the USSR supplied at least 50% of Afghan cotton cloth imports, with Japan supplying 30% and India only 5%. Formerly, India had supplied as much as 60%, Japan 25% and the USSR only 10%. ^{7/} India has expressed concern over the possible long-range loss of Indian markets in Afghanistan to the USSR in view of the alleged ability of Soviet Central Asia to supply goods traditionally imported from India. If the above reports can be assumed to contain fairly accurate information, it becomes apparent that the USSR is rapidly orienting trade in these commodities to the Soviet Union.

As a landlocked country, Afghanistan is dependant upon transportation through Pakistan and the USSR. The USSR is reported to have already attempted to exploit Pakistan's current blockade of transit goods to and from Afghanistan by offering a 10% rail reduction in exchange for a Soviet

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monopoly to purchase the bulk of Afghanistan's exports except fruit. The conclusion of a five-year transit agreement between the USSR and Afghanistan was announced 28 June 1955. Afghanistan's Finance Minister denied that the agreement gave the USSR a monopoly of Afghan export-import trade but admitted that this would be the practical effect if the Pakistan blockade were continued. Some evidence exists that Afghanistan is considering the export of karakul, Afghanistan's principal dollar earning product, to or through the USSR as partial payment under the transit agreement and in exchange for USSR consumer goods. 5/

France 2/

In May the French sought an explanation from the Soviets for the abrupt decline in Russian orders occurring at the beginning of 1955. Since the sharp decline French exports have leveled off but remain at a low level. By May no contracts had been concluded for any of the ten ships or boilers on the French export quota list of the November 1954 trade agreement. French exports of textiles had been "disturbingly negligible." French imports, with the exception of petroleum, were approximately at the level anticipated by the November 54 agreement. Two main difficulties hindering crude petroleum imports were cited: (1) the unwillingness of most of the French importers to purchase Soviet petroleum,

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and (2) more important, Russian delivery problems. Russian port facilities where crude petroleum is normally loaded for France are considered poor, only small tankers can be used and loading equipment is obsolete.

Finland ^{10/}

The Soviets have sharply curtailed the import of prefabricated houses under the 1955 agreement. The 1956-60 agreement signed in July 1954 called for delivery of 750,000 sq. meters in 1956 and only slightly lower quotas in the following years. The quota for prefabricated houses was reduced to 250,000 sq. meters in 1955, one-half the amount scheduled for 1955 under the long-term agreement of June 1950 and one-third the amount provided for under the 1954 agreement. The Chairman of the Finnish trade delegation, Minister Palmroth stated that further reductions may be expected in future years and this reduction might mean unemployment problems in the industry. This situation is comparable to the situation existing in the Finnish metal and shipbuilding industries in that the industry has relied almost exclusively on the Russian market for its export outlet. Under the June 1950 long-term pact, 80% of the prefabricated houses manufactured in Finland went to the USSR. Non-Communist press comments hinted that the blow to the prefabricated house industry should serve as salutary warning to the metal industry that it is not always safe to count on high fixed Soviet quotas. It is interesting to note that Communist press comments absolved the USSR of any blame for the reduction of quotas of prefabricated houses, blaming,

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instead, industry demands for prices higher than world market prices and Finnish foreign trade policy. It might be mentioned that Finnish metal and ship prices are also in general above world prices.

Australia

The USSR's reduced purchases of Australian exports accounted for two-thirds of Australia's trade deficit in the first nine months of the current financial year. In the nine months to end-March, sales to Russia declined by more than A. 24 million compared with the same period of the last financial year. Australian exports to the USSR from July 1954 to 31 March 1955 were only A. 153,000 with no purchases in March at all. ^{11/} The USSR had been a fairly regular buyer at the Australian wool sales until April 1954 when the USSR broke off diplomatic relations with Australia over the "Petrov Affair".

Sweden ^{12/}

Trade negotiations for the 1955 agreement were lengthy and difficult.

[REDACTED] the Soviet proposals for commodity exchanges envisaged a considerable decline compared with the previous year. Attempts to find out the reasons for the wide fluctuations in the amount of trade the Soviets propose from year to year met with little success. [REDACTED]

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A Swedish official has since indicated that if the

conditions in Swedish export lines had been less satisfactory, the reduction in Soviet requirements would have been cause for immediate concern.

USSR Imports of Consumer Goods Curtailed

United Kingdom

During the second half of 1953 and the first half of 1954 orders were placed by the USSR for goods amounting to approximately 35 million. The orders were mainly placed with representatives of British firms who visited Moscow in February 1954. At that time Soviet Foreign Trade Minister Kabanov told the British trade delegation that the USSR was prepared to place orders in the UK for goods totalling £ 400 million for the period 1955-57. At the end of February 1955 and the beginning of March the Soviets cancelled a number of the contracts, mostly for consumer goods, that had been placed during the past 18 months. In some

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cases, the USSR submitted voluntarily to the penalties stipulated in the agreement; in others, they used the excuse of some minor infringement of the contract terms to avoid paying the cancellation charges. ^{13/}

Currently some of the contracts have been reinstated, but an interesting feature, pointed out in an article appearing in The Economist of 26 March 1955, is that the Russians have apparently been willing to smirch what has previously been an almost spotless trading reputation. In dealing with British firms the Russians have normally been scrupulous in sticking to a contract once it had been signed. The article further points out that this will particularly affect those firms which had toolled up in special anticipation of the Russian orders continuing and ends with the following statement: "This incident underlines the fact that business with Communist countries always involves a special risk."

Iceland

The USSR has become increasingly important as a market for Icelandic fish and fish products, particularly since the British boycott of Icelandic fish. In 1953 the USSR became the second largest market for Icelandic products taking 12.5% of Iceland's total exports. The USSR remained in second place in 1954 taking 15.2% of Iceland's total exports. In 1953 the USSR only provided 2% of Iceland's total imports, but in 1954 the USSR emerged from sixth place to second providing 11.7% of Iceland's total imports. ^{15/}

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A possible indication of tightened Soviet policy was the notification to Iceland that the USSR will not buy salted herring in 1955 for free currency as it did in 1953 and 1954. ^{11/} The contract for 50,000 barrels of salted north coast herring for free sterling, signed outside of the framework of the August 1953 trade pact, was valued at approximately I.Kr 30 million (\$2 million).

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Communist Use of Trade Channels as a Propaganda Medium

The Soviet Bloc has employed a variety of methods as propaganda mediums.

Propaganda has often been a factor in the Soviet Bloc's participation in international trade fairs, in its increased attention to the conclusion of trade agreements with Free World countries, in its exchange of trade and cultural delegations and establishment of permanent trade missions and in its offers of technical assistance and equipment to Non-Bloc countries.

An example of propaganda is provided by a pamphlet entitled "Trade with the Soviet Union" published by the Canadian-Soviet Friendship Society in November 1954. This pamphlet purports to answer questions often asked about Soviet trade with published facts. As it can be seen from the following excerpts of the pamphlet, the Soviet Bloc has not missed any opportunity to propagandize its willingness to purchase commodities in surplus in Free World countries.

"Fish is surplus in Britain and Iceland (Canada too) and the USSR is buying their fish." [Yet in 1955 the USSR informed Iceland that no more salted herring would be purchased for free currency as had been previously done.]

"Butter is piled up in Netherlands, Denmark, Australia, New Zealand (Canada also) and the USSR buys there." [Yet in the negotiations for the 1955 Soviet-Netherlands agreement the USSR deleted this commodity from their list of proposed Dutch imports. In the Soviet-Swedish negotiations the USSR sought a reduction in the quota for butter.]

"Textile factories were closed down in France (as in our country) and Soviet buyers placed big orders." [Yet the French report that exports of textiles have been "disturbingly negligible" since the conclusion of the November 1954 agreement.]

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These are just a few examples of the "facts" contained in this report. The pamphlet cites examples, such as the UK's trade boom with the USSR, to refute the idea that Soviet trade is tied up with politics, the example of Finland to explain why Soviet "Planned Economy" is a help to trade and examples to show that USSR trade has been profitable. The pamphlet concludes with a proposal to send a trade mission to the USSR "with the aim of securing, for Canadian business and agriculture, a share of the very large and growing foreign trade of the USSR."

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SOURCES:

1. [REDACTED] 25X1A
2. State, Copenhagen. Esp 1204, 17 June 1955, Official Use Only
3. Commerce, Bureau of Foreign Commerce, Official Trade Statistics, U
4. State, The Hague. Esp 807, 16 March 1955, Official Use Only
State, The Hague. Esp 1021, 9 May 1955, Official Use Only
5. State, Kabul. Esp 90, 3 January 1955, Secret
6. Kabul Incoming Telegram #699, 20 June 1955, Confidential
7. State, Kabul. Esp 90, 3 January 1955, Secret
8. Kabul Incoming Telegram #699, 20 June 1955, Confidential
Kabul Incoming Telegram #35, 11 July 1955, Confidential
9. State, Paris. Esp. 2418, 9 May 1955, Confidential
10. [REDACTED]
11. The Financial Times, 13 May 1955, Unclassified
12. State, Stockholm, Esp. 1169, 13 May 1955, Confidential
13. Washington Post, 19 March 1955, Unclassified
London Incoming Telegram #4502, 13 April 1955, Secret
14. Office of Economic Affairs, Bureau of Foreign Commerce, "Weekly Economic Developments Abroad", 25 March 1955, Confidential
15. Commerce, Bureau of Foreign Commerce, Official Trade Statistics, Unclassified

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